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February 13, 2006

HAND DELIVERY

Colleen Ryan
Arizona Corporation Commission
Docket Control
1200 West Washington Street
Phoenix, Arizona 85007

Re: Valley Utilities Water Company, Inc.; Docket Nos. W-01412A-04-0736 & W-01412A-04-0849; Decision No. 68309; Positive Equity Position Plan Filing Compliance

Dear Ms. Ryan:

The Subject Decision requires the Company to file a Positive Equity Position Plan within 90 days of the Decision date. The Company has considered what it believes to be every conceivable method of obtaining that goal. Based upon those considerations and after consultation with its rate consultants, accountants and attorneys the Company submits herewith 15 copies of that Plan.

In the event you have any questions regarding this matter, please do not hesitate to call.

Sincerely,

Richard L. Sallquist

Enclosures

Cc: Brian Bozzo
Bob Prince
Ron Kozoman
Tom Bourassa

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VALLEY UTILITIES WATER COMPANY, INC.
POSITIVE EQUITY POSITION PLAN
Docket No. W-01412A-04-0736 & W-01412A-04-0849
Decision No. 68309
February 13, 2006

The Subject Decision stated as follows, "IT IS FURTHER ORDERED that Valley Utilities Water Company, Inc. shall develop and institute the plant to produce a positive equity position by December 31, 2010, and shall file a copy of the plan, with the Commission's Docket Control, as a compliance item in this docket within 90 days."

Staff Exhibit S-2, Schedule DRR 19, states the Company's pro forma capital structure as follows:

Common Equity	$(413,442)	(27.3)%
Long Term Debt	$1,773,563	117.2%
Short Term Debt	$152,537	10.1%

The Company's Exhibit A-1, Exhibit A, Schedule E-1, cites virtually the same negative equity position. The Subject Decision approved a WIFA loan in the amount of $1,926,100 for the mandated arsenic treatment facilities. The Decision found the Fair Value Rate Base to be $(539,804).

Increasing the Company's equity to a positive amount will require an addition of a minimum $413,442 in equity through a combination of Common Stock issuance, Paid-in Capital and/or Retained Earnings. The President of the Company has repeatedly testified that the shareholders do not have additional funds available for Paid-In Capital in the Company nor could it attract equity capital from other investors under its current financial condition. Additional equity capital from Paid-In Capital or Common Stock issuance would have no effect on the Company's earnings base (rate base) and thus would not be subject to any return. Such an investment would effectively become a capital loss to an investor. No rational investor would make such an investment under the circumstances.

The Company has stated consistently throughout this proceeding, it believes reaching that objective is not feasible especially since the Company was not granted an ability to recover actual arsenic operating and maintenance costs through a surcharge mechanism. The Decision authorized an Operating Income after taxes of $95,751. That Decision also denied the Company's request for an Arsenic Operating and Maintenance Recovery Surcharge Mechanism (AOMRSM) which would recover the Company's estimated (and confirmed by the Commission's Engineering Staff) approximate $210,000 in annual operating expenses associated with the arsenic facilities.

Given the above, the Company's Positive Equity Plan is as follows:

1. Within 60 days, the Company will file an Application with the Commission requesting an Accounting Order authorizing the deferral of any and all Arsenic Operating and Maintenance expenses for recovery in future rate proceedings.

2. Because all equity growth will come from internally generated Retained Earnings derived from Operating Income, the Company will attempt to maintain the operating margin authorized by the Commission by filing new rate applications as often as necessary (annually if need be).

3. File a new Rate Application based upon the Test Year no later than 2007 to provide an additional level of Operating Income that can be reinvested in the Company.

4. When the Company incurs significant, prudent and necessary expenses which it does not have the ability to pay, it will file emergency rate applications as necessary to maintain the authorized operating margin.

5. Reinvest available Operating Income in new plant and equipment. This has the equally important benefit of increasing Rate Base. The Company will also limit reliance on developer funded plant (contributions and advances) where feasible.

6. Apply for Accounting Order(s) as necessary, to defer prudent and necessary expenses for consideration of recovery in subsequent rate cases. This will include a mechanism to authorize Staff's expedited approval under that Accounting Order of expenses as incurred.

7. While the Company has not paid dividends in the past, the Company will continue to suspend dividends.

The Company can not state with any degree of confidence that the above Plan will reach positive equity by December 31, 2010. However, there are no other alternatives.